

**BEFORE THE  
POSTAL REGULATORY COMMISSION  
WASHINGTON DC 20268-0001**

ANNUAL COMPLIANCE REPORT

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Docket No. ACR2007

**QUESTIONS OF  
MAGAZINE PUBLISHERS OF AMERICA, INC.,  
FOR DISCUSSION AT JANUARY 23, 2008  
TECHNICAL CONFERENCE  
(January 18, 2008)**

Magazine Publishers of America, Inc. ("MPA") respectfully submits the following questions for discussion at the technical conference in this docket on January 23, 2008:

1. In its Docket No. R2006-1 Opinion and Recommended Decision, the Postal Regulatory Commission, perhaps inadvertently, used a different methodology in PRC-LR-14 for estimating delivery costs avoided by presorting Periodicals to Carrier Route than the Commission had used in previous rate cases. In previous dockets, the PRC used the delivery cost difference between Standard Mail Regular flats (or nonletters in some instances) and Standard Mail Enhanced Carrier Route ("ECR") Basic flats as a proxy because Periodicals delivery cost data by presort level are unavailable.

In Docket No. R2006-1, this cost avoidance was estimated as the difference in delivery cost between Periodicals flats (about half of which are presorted to Carrier Route) and Standard Mail ECR Basic flats. Using the unit delivery cost of Periodicals flats (rather than the Standard Mail Regular flat delivery cost) as the benchmark for this calculation in Docket No. R2006-1 had little practical effect because unit delivery costs for Periodicals flats and Standard Mail Regular flats were similar. See PRC-LR-11.

However, the Postal Service's apparent adoption of the Commission's R2006-1 approach (in USPS-LR-FY07-3) in preparing its Annual Compliance Report ("ACR") has a significant effect on the estimated Periodicals Carrier Route cost avoidance because, in FY 2007, the delivery cost of Periodicals flats is approximately two cents less than the delivery cost of Standard Mail Regular flats (USPS-LR-FY07-19). Hence, use of this approach reduces the cost avoidance estimate by two cents per piece. MPA would like to discuss whether the Commission's R2006-1 approach (which deviated from its past practice) was inadvertent or intentional, and whether the R2006-1 or a previous approach should be used to estimate the Periodicals Carrier Route delivery cost avoidance in the ACR.

2. There are two notable differences in Periodicals Outside County mail processing costs by cost pool between the R2006-1 Test Year (Test Year 2008) and the FY 2007 actuals filed in the ACR. First, the unit cost of the Flats Preparation cost pool (i.e., "035") reported in the ACR is approximately 50 percent lower than the unit cost adopted in R2006-1. Second, the costs in the AFSM 100 cost pool in the ACR are nearly twice as great as in R2006-1. *Compare* Periodicals costs by cost pool in R2006-1, PRC-LR-14, with those in USPS-LR-FY07-11.

Also, the Postal Service established a new MODS Operation Code ("Code 140") for Mail Preparation ATHS/AI Machine between the R2006-1 Base Year (Base Year 2005), which formed the basis of the R2006-1 Test Year costs, and FY 2007. FY 2007 Code 140 costs are significant and appear to be included in the AFSM 100 cost pool, rather than the Flats Preparation cost pool. Because the activities performed by employees clocked into Code 140 may be similar to those performed by employees in

the Flats Preparation cost pool, it seems likely that, rather than flats preparation costs decreasing dramatically and AFSM 100 costs increasing dramatically between R2006-1 and the ACR, flats preparation costs simply may have been shifted from the Flats Preparation cost pool to the AFSM 100 cost pool.

MPA requests that the Postal Service discuss whether the activities performed by employees clocked into Code 140 are more similar to the activities performed by employees in the Flats Preparation cost pool or to the activities performed by employees clocked into other AFSM 100 codes.

MPA would then like to discuss the appropriate approach for incorporating Code 140 costs into the FY 2007 Periodicals mail processing cost model (USPS-LR-FY07-11) filed in the ACR. In particular, should Code 140 costs be incorporated into the model in a manner similar to that used by the Commission in Docket No. R2006-1 for the Flats Preparation cost pool, should Code 140 work hours be included with other AFSM 100 work hours when calculating AFSM 100 productivities, or should a hybrid of these two approaches be adopted?

3. In USPS-LR-FY07-11, the Postal Service estimates (among other items) direct and allied piece-related costs by presort level, machinability, and barcode status (i.e., whether the piece is prebarcoded). However, the passthroughs calculated by the Postal Service in USPS-LR-FY07-3 appear to include only direct piece-sorting costs. MPA would like to discuss whether excluding allied piece-related cost avoidances for the purpose of calculating passthroughs is appropriate.

Respectfully submitted,

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